

Sample Questions

1. Typically, the bank's trading book would contain which of the following types of financial assets?

- I. Loans held to maturity
- II. Short-term corporate loans held to maturity
- III. Bonds held by the bank in its investment portfolio
- IV. Long-term corporate loans held to maturity

- a. I only
- b. II and III only
- c. III only
- d. II, III, and IV

2. Market risk is the loss a bank potentially suffers

- a. Because a bank or counterparty will fail to meet its obligations in accordance with agreed terms.
- b. On its on- and off-balance-sheet positions arising from movements in market prices.
- c. Resulting from inadequate or failed internal processes or systems, human error, or external events.
- d. Due to a decrease in the competitive position of the bank and the prospect of the bank prospering in changing markets.

3. Credit risk is the loss a bank potentially suffers

- a. Because a bank or counterparty will fail to meet its obligations in accordance with agreed terms.
- b. On its on- and off-balance-sheet positions arising from movements in market prices.
- c. Resulting from inadequate or failed internal processes or systems, human error, or external events.
- d. Due to a decrease in the competitive position of the bank and the prospect of the bank prospering in changing markets.

See next page for answers and explanations

Sample Answers

1. Typically, the bank's trading book would contain which of the following types of financial assets?

- I. Loans held to maturity
- II. Short-term corporate loans held to maturity
- III. Bonds held by the bank in its investment portfolio
- IV. Long-term corporate loans held to maturity

- a. I only
- b. II and III only
- c. III only
- d. II, III, and IV

Correct Answer: c.

Explanation: Bonds held by the bank in its investment portfolio

2. Market risk is the loss a bank potentially suffers

- a. Because a bank or counterparty will fail to meet its obligations in accordance with agreed terms.
- b. **On its on- and off-balance-sheet positions arising from movements in market prices.**
- c. Resulting from inadequate or failed internal processes or systems, human error, or external events.
- d. Due to a decrease in the competitive position of the bank and the prospect of the bank prospering in changing markets.

Correct Answer: b.

Explanation: On its on- and off-balance-sheet positions arising from movements in market prices.

3. Credit risk is the loss a bank potentially suffers

- a. **Because a bank or counterparty will fail to meet its obligations in accordance with agreed terms.**
- b. On its on- and off-balance-sheet positions arising from movements in market prices.
- c. Resulting from inadequate or failed internal processes or systems, human error, or external events.
- d. Due to a decrease in the competitive position of the bank and the prospect of the bank prospering in changing markets.

Correct Answer: a.

Explanation: Because a bank or counterparty will fail to meet its obligations in accordance with agreed terms.